



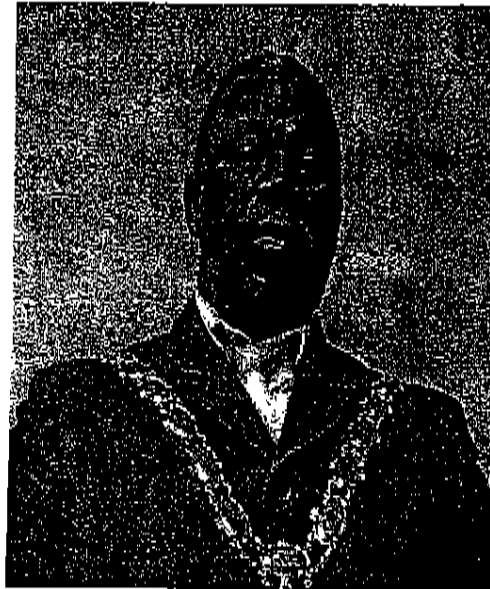
Mayoral Budget Speech 2010/2011

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# FINAL BUDGET 2010/2011

PRESENTED BY



The Honourable Mayor,

Cllr B J Mncwango

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UPHONGOLO MUNICIPALITY

Open Council Meeting

Mayoral Budget Speech 2010/2011

31<sup>ST</sup> May 2010 at the Council Chambers, Pongola

The Honourable Speaker of the Council: Cllr S V Dlamini,  
The Honourable Deputy Mayor: Cllr S W Van der Merwe,  
Members of the EXCO of uPhongolo Municipality,  
Members of the Ward Committees Present,  
All Government Department represented here today both National and Provincial,  
The Municipal Manager of the uPhongolo Municipality,  
The HOD's Managers of the uPhongolo Municipality,  
Employees of the uPhongolo Municipality,  
Media,  
Ladies and Gentlemen,

It gives me great pleasure to stand before the Council and the community representatives of the uPhongolo Municipality to table the uPhongolo Municipal budget for the financial year 2010/2011, in my capacity as the Mayor of this municipality. Before I can proceed allow me to remind you all what the Municipality's mission and vision are:

OUR MISSION

To ensure provision of sustainable service delivery in order to improve the quality of life of the communities within our area of jurisdiction

OUR VISION

uPhongolo Local Municipality will evolve into a dynamic socio-economically driven environment through sustainable service delivery

Now having reminded you on the mission and the vision I will now proceed to present this budget that is guided by Section 152 of the RSA Constitution. The section in summary eludes to the responsibility of Local Government to provide and improve the basic services to the community within its jurisdiction.

Regrettably I am presenting this budget at the time when the inflation is fluctuating in South Africa from one extreme to the other; there is a significant rise of food prices due to the fact that there is high demand for food when the supply side has been gradually diminishing thus being unable to meet the demand. The political challenge in the Middle East Countries where South Africa buys its crude oil has contributed to the price escalation, again due to the demand exceeding the supply by far. As if that was not enough, South Africa is experiencing an acute shortage of electricity supply, which has promoted Eskom to apply for exorbitant increases.

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The casualty of all the factors that I have mentioned above is the individual citizen of this country who has to stomach the end result of all these forces as they get lumped to the products that we consume. This then Madam Speaker has meant that our people have to survive with fewer resources under conditions that are getting harsher by the day.

As I present this budget, Madam Speaker, it is also important to mention that this is the first budget that has been prepared according to the new Budget Regulation. uPhongolo Municipality however remains cash strapped and is mainly grant dependant. Without grants like the Equitable share the municipality will battle to let ends meet.

The reality of an escalating unemployment rate causing an increased Indigent support requirement has sadly directly affected the revenue base of Council resulting in many of the proposed capital projects of prior years being left undone due to inadequate funding from internal resources through poor payment levels.

On addressing such the uPhongolo Municipality is also currently considering several proposals to introduce the electricity pre-paid metering system in the 2010/2011 financial year, and has appointed Debt Collectors to try to improve its cash revenue base.

I thought that as the Mayor, it is important that I should mention all these factors upfront, so that our communities can be aware that as a caring municipality we are aware of these conditions, and that we have taken them into consideration when putting together this budget.

**The Budget preparation Process**

The preparation process of the Capital and Operating Budget 2010/2011 commenced as expected by submitting the Budget and IDP Review plan to Council for approval on the 31<sup>st</sup> of May 2009.

Once the IDP review process was complete, Managers were then instructed to prepare a draft budget taking into consideration the community feedback from the IDP review process. Management submitted their budget proposals for consolidation into one Council Draft Budget on 30<sup>th</sup> March 2010. This draft budget was then left open for public comments after an extensive advertisement notice on the availability of the budget document at strategic places in order to allow a Budget consultative process.

I then embarked on an extensive IDP and Budget Roadshow as from 28<sup>th</sup> April 2010 until 1<sup>st</sup> May 2010, by visiting Wards.

Again when the budget consultative process was complete, we had to sit down, take into consideration input from all those who had commented and then finalize the budget for 2010/2011. Madam Speaker the budget was then finalized by Management, submitted to the EXCO at its meeting held on the 24<sup>th</sup> May 2010, and is now being tabled before the Council for adoption as the final budget for 2010/2011 financial year.

Again Madam Speaker, although this might look too laborious for other people, it is very important that we outline the process that we have followed upfront so that everyone cannot accuse of preparing a budget that does not talk to the wishes of the majority of our people.



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## -BUDGET PRESENTATION-

### 1. OPERATING BUDGET

The total operating expenditure has been budgeted at the sum of R119 223 091.00

This has been increased by the sum of R311 485 40.00 from the 2009/2010 budget of R88 074 551.00 and this reflects the 35.37% overall growth expenditure increase.

The operating budget is tabled as follows:

Details	R/M Budget 2010/2011	R/M Budget 2009/2010	% Increase / (Decrease) Between years
Salaries, wages & allowances	30 476 560	22 592 747	34.90
General Expenditure	49 325 827	33 748 055	46.16
Repairs & Maintenance	6 589 936	5 842 771	12.79
Capital charges / Depreciation	1 621 836	489 064	231.62
Contribution to funds & Reserves	7 340 932	3 608 914	103
Contribution to Capital Outlay	23 868 000	21 793 000	9.52
Grand Total	119 223 091	88 074 551	36.54

### SALARIES WAGES AND ALLOWANCES

The salaries budget is proposed and budgeted at an increase of 8.48% plus 2.5% non pensionable allowance across the board.

The total salaries including Councillors allowances budget proposed is R30 476 560.00.

This increased by R7 883 813 from 2009/2010 budget and gives the overall increase of 34.90%.

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The percentage of salaries budget is 31.6% of the total operating budget.

GENERAL EXPENSES

The total general expenses budget amounts to R49 325 827 million.

These expenses are for day to day operations of the Council. A provision for administration funding as well as other Council programmes has been made and programmes like community communication; special programmes; economic programmes and social programmes.

The allocation for General Expenditure to the operating budget is 51.73% of the total budget.

REPAIRS AND MAINTENANCE

The total repairs and maintenance budget provision amounts to R6 589 936.00 million.

This is mainly for roads and stormwater maintenance, electricity maintenance, plant and equipment and machinery maintenance and property maintenance.

These are 6.91% of the operating budget.

CAPITAL (LOAN) CHARGES

The provision for the repayment of internal and external loans has been allocated R1 621 836.00. This is mainly for external loans raised previously for capital expenditure.

This reflects as 1.70% of the operating budget R95 355 091.00.

CONTRIBUTION TO FUNDS

The budgeted amount of R7 340 932.00 has been prepared to make provision for all the contributions from Council Revenue to Statutory funds as approved by legislation.

This contribution includes a significant increased contribution for the provision of Bad Debt as the municipality is currently being owed in excess of R40 Million. The likelihood of this debt being recovered is slim thus the need for a significant bad debt provision.

These are 7.7% of the operating budget.

ELECTRICITY CONTRIBUTIONS TO RATES AND GENERAL

The electricity makes contributions from its trading surplus to subsidize all the rates and general activities as approved by Council.



The same provision has been made from this budget for this purpose. The Municipality has undertaken an exercise to establish why the municipality is not generating profits and it appears that there are consumers not being billed and other consumers whom has faulty metering equipment.

The budget allocation for this purpose is R500 000.00 which is 0.52% of the total operating budget.

## TARRIFFS

### **Property rates**

The uPhongolo Municipality is legislatively compelled to comply with the Municipal Property Rates Act which provides an alternative rating system on property rates. In addition to this it also includes charging the Public Benefit Organization over a phased period for the first time.

For this reason I feel it is important that I give a brief explanation on the requirements of the Municipal Property Rates Act.

In accordance with the Municipal Property Rates Act the rate on the categories of non residential property listed in the first column of the table below may not exceed the ration to the rate on residential properties listed in the second column of the table below, where,

- a) the first number in the second column of the table represent the ratio to the rate on residential properties;
- b) the second number in the second column of the table represents the maximum ratio to the rate on residential property that may be imposed on the non-residential properties listed in the first column of the table:

TABLE

Categories	Ratio in relation to residential property
Residential property	1:1
Agricultural property	1:0.25
Public service infrastructure property	1:0.25
Public Benefit Organization	1:0.25

The Government Gazette No. 32061 Government Notice No. GR 363 provides the following definition of 'agricultural property':

**"agricultural property"** means property envisaged in section 8(2)(d)(i), (e) and (f)(i) of the MPRA. (Municipal Property Rates Act)



In other words:

- farm properties used for agricultural purposes – section 8(2)(d)(i);
- farm properties not used for any purpose – section 8(2)(e); and
- smallholdings used for agricultural purpose – section 8(2)(f)(i).

Neither the MPRA nor the regulation defines 'public service infrastructure property'. Section 1 of the MPRA does. However, define 'public service infrastructure' as follows:

**"public service infrastructure"** means publically controlled infrastructure of the following kinds:

- (a) national, provincial or other public roads on which goods, services or labour move across a municipal boundary;
- (b) water or sewer pipes, ducts or other conduits, dams, water supply reservoirs, water treatment plants or water pumps forming part of a water sewer scheme serving the public;
- (c) power stations, power substations or power lines forming part of an electricity scheme serving the public;
- (d) gas or liquid fuel plants or refineries or pipelines for gas or liquid fuels, forming part of a scheme for transporting such fuels;
- (e) railway lines forming part of a national railway system;
- (f) communication towers, masts, exchanges or lines forming part of a communications system serving the public;
- (g) runways or aprons at national or provincial airports;
- (h) breakwaters, sea walls, channels, basins, quay walls, jetties, roads, railway or infrastructure used for the provision of water, lights, power, sewerage or similar service of ports, or navigational aids comprising lighthouses, radio navigational aids, buoys, beacons or any other device or system used to assist the safe and efficient navigation of vessels;
- (i) any other publicly controlled infrastructure as may be prescribed; or
- (j) rights of way, easements or servitudes in connection with infrastructure mentioned in paragraphs (a) to (i).



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The Municipal Property Rates Regulations on the rate ratios between residential and non-residential categories of property, were amended in order to include a ratio for Public Benefit Organization property of 1:0.25 (Government Gazette no 33016 dated 12<sup>th</sup> March 2010)

Welfare and humanitarian, health care and education and development items as reflected on the 9<sup>th</sup> schedule to the Income Tax act, are applicable to the ratio and phasing in of payment of property rates.

The tariff increases for 2010/2011 are proposed as follows:

• Residential & Sectional Titles	R0.00954 cent in the rand
• Business and Commercial	R0.011925 cent in the rand
• PSI	R0.011925 cent in the rand 30% rebate
• Agriculture 2 <sup>nd</sup> Year Phase 50% thereof	R0.002385 cent in the rand R0.0011925
• Municipal Property	R Nil
• Industrial Property	R0.011925
• Vacant Land	R0.011925
• State Owned Properties	R0.011925
• Rebates on Residential Property Value	R60 000.00
• Public Benefit Organization	R Nil
• Rebates - Indigent Pensioners and disabled upon submission of application and supporting documents	20%
• Special Non-Market Properties	R0.011925

The respective tariffs subject to approval per application will be assisted with rebates in terms of the property rates assessment.

**Refuse removal**

We are proposing the refuse removal be increased by 8%.

**Electricity Sales**

We are proposing that electricity be increased by 28.9% due to:

- Eskom increased the Bulk Purchase to be charged to Municipalities with 28.9% which is more than the other retail customers are being charged.
- Capital outlay for Extension 4 needs to be funded from own sources where no external loan can be obtained.
- Eskom did not charge Council for the Pontus Substation's second feeder and now wants Council to repay R4 678 273.23 over 48 months due to their error, as from April 2010.
- Upgrade Fee for the increase in MVA supply demand is costing the Municipality an amount of R1 600 000.00 to be paid over 12 months.





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Because this municipality does not have any reserve, should such increase be approved, we will sadly approach this Council for permission to pass on such increase to the citizens in Phongola.

Unfortunately this service is running at a deficit simply because of the large provision that has to be made as instructed by National Treasury in Circular 51 regarding the purchase of Bulk Electricity.

The MFMA clearly outlines that realistic anticipated revenue must be used for budgeting and as such the income cannot be overstated to simply comply that the service yields a surplus.

We will do this much against our will but forced by the reality that not doing so will affect the viability of this municipality.

## All Other charges

We are proposing that other charges be increased on an average at 8%

## OPERATING BUDGET SUMMARY

The operating budget as proposed and explained above is summarized as follows:

Description	Expenditure	Income	Income (Deficit)
Rates & General Services	105 150 698	105 150 698	Nil
Electricity Services	14 072 393	15 587 368	1 514 975
Total	119 223 091	120 738 066	1 514 975

The operating Budget as proposed is inclusive of the R905 000.00 to fund the capital expenditure from council own revenue.

## CONDITIONAL AND UNCONDITIONAL GRANTS

Equitable share grant allocation of R43 874 million has been budgeted as part of the council revenue as gazetted in the Division of Revenue Act (DoRa) for 2010.

Municipal Systems Improvement Grant allocation of R750 000.00 has been budgeted as part of the Council conditional revenue to improve institutional capacity and systems. This is the amount of allocation gazetted to be transferred in the DoRa for 2010.

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MIG allocation as gazetted to DoRa has been budgeted at an amount of R13 963 000.00 million for the construction or rehabilitation of infrastructure for service delivery.

Financial Management Grant allocation of R1 200 000.00 million has been budgeted for as gazetted in DoRa for financial management reforms.

Other Grants are to the amount of R14 348 000.00 and R9 000 000.00 million for Electrification.

Conclusion

Madam Speaker, before I conclude my presentation, I would like to thank the Municipal Manager and the entire Management for the effort and sleepless nights they have put into this process. Whilst this has been a difficult and sometimes testing process, one noticed a unified approach in dealing with all challenges and a rejuvenated willingness to work as a team for the interest of this municipality. I would also like to thank all the Stakeholders present today and all those, although not present today, but whose meaningful contribution has resulted in the budget that I am presenting today. To all those, thank you very much.

In conclusion, Madam Speaker, this is a proposed budget for both capital and operating estimates as prepared by the EXCO, assisted by Management. The capital estimates have been compiled after taking into account the IDP projects and the capacity of the Municipality to deliver on all these projects. Legally the deadline for the submission of the SDBIP is the end of July each year, however, it gives me pleasure to announce that we are on track to finalize SDBIP by the required legislative deadline.

Accordingly Madam Speaker I so move that the Council adopts this as the budget for the uPhongolo Municipality for the financial year 2010/2011.

I THANK YOU

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